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ANNUAL REPORT

1942



THE AVIATION CORPORATION
AND ASSOCIATED COMPANIES

The Aviation Corporation

AND ASSOCIATED COMPANIES



Annual Report

FOR THE FISCAL YEAR ENDED NOVEMBER 30, 1942



The Aviation Corporation

General Office . . . 420 Lexington Avenue, New York, N. Y.
Corporate Office . . . 927 Market Street, Wilmington, Del.

DIRECTORS

C. COBURN DARLING	L. B. MANNING
VICTOR EMANUEL	BENJAMIN H. NAMM
L. I. HARTMEYER	T. A. O'HARA
ARTHUR W. HERRINGTON	R. S. PRUITT
CARLTON M. HIGBIE	HENRY DALZELL WILSON
WILLIAM F. WISE	

OFFICERS

VICTOR EMANUEL	President
WILLIAM F. WISE	Executive Vice President
L. I. HARTMEYER	Vice President
IRA J. SNADER	Vice President — Manufacturing
P. E. GARLENT	Vice President — Williamsport Operations
R. S. PRUITT	Vice President, Secretary and General Counsel
W. A. MOGENSEN	Vice President and Treasurer
R. H. DEETJEN	Assistant to the President
FRANK S. LARSON	Asst. Secy. & Asst. Treas.
J. R. REICHENBACH	Asst. Secy. & Asst. Treas.
GORDON G. JOHNSON	Asst. Secy. & Asst. Treas.
R. G. McKENDRY	Asst. Secy. & Asst. Treas.
R. M. MABEE	Asst. Secy. & Asst. Treas.
J. ALLEN SMEAD	Asst. Secy. & Asst. Treas.
M. T. BODEN	Asst. Secy. & Asst. Treas.

STOCK TRANSFER AGENT: Schroder Trust Company, 46 William St., New York, N. Y.

REGISTRAR: The Commercial National Bank and Trust Company of New York, 46 Wall St., New York, N. Y.

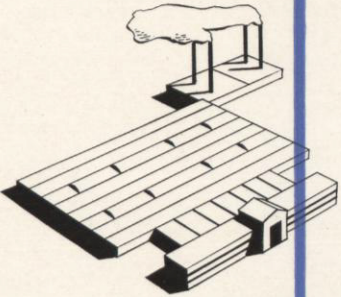
CO-TRANSFER AGENT: R. W. Fernald, Bankers Building, 105 West Adams St., Chicago

CO-REGISTRAR: The First National Bank of Chicago

LISTING OF CAPITAL STOCK: New York Stock Exchange, The Chicago Stock Exchange

THE AVIATION CORPORATION

MANUFACTURING UNITS

- 
- LYCOMING DIVISION
 - AMERICAN PROPELLER CORPORATION (*wholly owned subsidiary*)
 - REPUBLIC AIRCRAFT PRODUCTS DIVISION
 - NORTHERN AIRCRAFT PRODUCTS DIVISION
 - LIQUID COOLED ENGINE DIVISION
 - SPENCER HEATER DIVISION

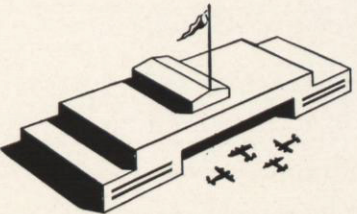
ASSOCIATED COMPANIES

(PERCENTAGES INDICATE OWNERSHIP BY THE AVIATION CORPORATION)

- 
- VULTEE AIRCRAFT, INC. (*76% of Common Stock*)
Vultee Field Division • Nashville Division
Stinson Division • Louisville Division • Allentown Division
Intercontinent Aircraft Corporation (*wholly owned subsidiary of Vultee*)
 - CONSOLIDATED AIRCRAFT CORPORATION
(*34% of Common Stock owned by Vultee*)
San Diego Division • Fort Worth Division • New Orleans Division
Tucson Division • Elizabeth City Division
 - NEW YORK SHIPBUILDING CORPORATION
(*50% of Founders Stock, equivalent to 21% of total equity stock*)
 - AMERICAN CENTRAL MANUFACTURING CORPORATION
(*53% of Preferred Stock and 55% of Common Stock*)

OTHER INVESTMENTS

(PERCENTAGES INDICATE OWNERSHIP BY THE AVIATION CORPORATION)

- 
- AMERICAN AIRLINES, INC. (*25% of Common Stock*)
 - PAN AMERICAN AIRWAYS CORPORATION
(*9.5% of Common Stock*)
 - ROOSEVELT FIELD INC. (*20% of Common Stock*)

The Aviation Corporation

*To the Stockholders of
The Aviation Corporation:*

Multiplied war production is the most important achievement we have to report on behalf of The Aviation Corporation and associated companies for the fiscal year ended November 30, 1942 — a period which practically coincided with America's first year of active participation in World War II.

The Corporation's own manufacturing units delivered approximately \$45,000,000 of aircraft engines, propellers, precision parts and other materials for the armed forces, or two and one-half times the dollar volume of production in 1941. The aggregate deliveries of the Corporation and its associated companies, whose major products are military and naval aircraft and naval vessels, amounted to more than \$640,000,000.

New production peaks were attained and surpassed. Plant facilities, most of which were financed by the Government, were greatly increased and expansion is continuing. Employment was substantially higher and employee training programs were expanded. Increased operating efficiency was marked by reduction in man-hours per unit of product.

The vastly increased production by our group of companies was made possible by nearly 120,000 employees, whose numbers are continuing to grow, and by thousands of suppliers and subcontractors. The record is all the more creditable because it was accomplished with constantly decreasing man-hours per unit of product and substantial reductions in cost to the Government.

Backlogs of unfilled orders are not permitted to be stated for specific operating divisions and companies. In the aggregate the backlogs of The Aviation Corporation's units and associated companies exceed \$2,500,000,000.

The full story of 1942 production cannot yet be told, for much of it is restricted military and naval information. Part of the story has been told in official communiques, reporting attacks upon the enemy by bombers, exploits of flying boats, and epochal flights of transport

planes; also in official announcements of aircraft production, ship launchings, and expansion of facilities for greater industrial output in 1943. We are proud to have had a part with American industry in 1942 in demonstrating to the world that the American system of free enterprise now excels in every way the boasted production of the Axis powers.

Like American industry generally, the companies in The Aviation Corporation group are engaged 100 per cent in war production. This means that the present return upon the stockholders' investments is limited by the necessarily high taxes of wartime, and also by renegotiation of contract prices and other uncertainties under existing laws. Looking forward, the dollars of free enterprise gone to war will turn out to be investments in facilities and productive effort which eventually will be called upon for products essential in the world reconstruction period to follow. What American free enterprise manages to do in the present emergency, aided by a fair margin of protection for the future, will be a measure of industry's capabilities and performance in the post war period.

SUMMARY OF FINANCIAL RESULTS

The Aviation Corporation and its associated companies are subject to contract renegotiation under legislation applying to companies engaged in manufacturing war materials for the Government or for other Government prime contractors. Consequently, until contract renegotiations are completed, none of our companies can determine with accuracy their earnings for the 1942 fiscal year.

With this qualification, the consolidated net income of The Aviation Corporation for the fiscal year ended November 30, 1942, before and after provision for Federal taxes, as compared with results for the fiscal year ended November 30, 1941, follows:

	1942	1941
Net income before taxes.....	\$11,223,894	\$3,179,142
Provision for Federal taxes.....	<u>6,500,000</u>	<u>725,000</u>
Net income after taxes.....	4,723,894	2,454,142
Per share of capital stock.....	82 cents	42 cents

The earnings figures for 1942 include dividends from investments totaling \$1,385,629 and profit realized from sale of securities amounting to \$1,318,154. Net income of \$4,723,894, after provision for Federal taxes, is also after a charge of \$600,000 for post-war readjustment reserve. The 1942 tax provision of \$6,500,000 is equivalent to \$1.12 per share of capital stock.

During the year The Aviation Corporation purchased \$2,780,000 of United States Treasury tax anticipation notes.

The consolidated earnings reflect the results of operations of The Aviation Corporation's manufacturing divisions and its wholly owned subsidiary, American Propeller Corporation, whose accounts are included in the accompanying financial statements. The consolidated earnings also include income received from other investments, but do not reflect the Corporation's equity in the undistributed earnings of subsidiaries not consolidated, comprising Vultee Aircraft, Inc. (which owns a large interest in Consolidated Aircraft Corporation), New York Shipbuilding Corporation, and American Central Manufacturing Corporation. Other companies in which The Aviation Corporation has substantial investments, and which are not subsidiaries, are American Airlines, Inc., Pan American Airways Corporation and Roosevelt Field Inc.

The Aviation Corporation's equity in the undistributed earnings of the subsidiaries not consolidated was equivalent for the 1942 fiscal year to 55 cents per share of its capital stock, subject to change from contract renegotiation, compared with 45 cents per share for the 1941 fiscal year.

Dividends to stockholders of The Aviation Corporation, paid with respect to the 1942 fiscal year, totaled \$1,445,556, or 25 cents per share. This amount represents dividends on the outstanding capital stock of 10 cents per share paid April 20, 1942 and 15 cents per share paid December 21, 1942.

* * *

The following table shows a comparison of the 1942 and 1941 net income, after all charges and taxes, of companies (not consolidated) in which The Aviation Corporation has direct and indirect investments:

	<i>Common Stock Ownership</i>	<i>Net Income</i>	
		<i>1942</i>	<i>1941</i>
<i>Associated Companies (a)</i>			
Vultee Aircraft, Inc.	76%	\$ 4,553,040	\$3,100,735
Consolidated Aircraft Corporation.....	34%(b)	10,813,916	8,024,882(c)
New York Shipbuilding Corporation.....	21%	3,042,610	3,074,533
American Central Manufacturing Corporation	55%	469,177	115,338
<i>Other Investments</i>			
American Airlines, Inc.....	25%	(d)	2,473,160
Pan American Airways Corporation.....	9.5%	(d)	3,361,252
Roosevelt Field Inc.....	20%	95,040	96,656

(a) These companies are subject to contract renegotiation.

(b) Representing proportion of Consolidated Aircraft stock owned by Vultee.

(c) Representing 11 months ended November 30, 1941.

(d) 1942 earnings are not yet available.

VALUE OF INVESTMENTS

While The Aviation Corporation and its associated companies are primarily engaged in producing aircraft, aircraft engines, propellers and precision parts for the war effort, nevertheless the Corporation has major investments in two of the most important companies in the air transportation field, American Airlines, Inc. and Pan American Airways Corporation. This diversification of investments affords a high degree of flexibility for the Corporation.

The estimated value of The Aviation Corporation's investments and other net assets at January 31, 1943 — based on market quotations where available and otherwise on conservative book values — amounted to approximately \$36,000,000, equivalent to \$6.23 per share of capital stock. The net book value of the Corporation's assets, as reflected by its balance sheet, is approximately \$23,650,000 or \$4.09 per share.

Based on the outstanding capital shares of The Aviation Corporation, the market value of our investments in the two air transport companies is equivalent to \$2.16 per share; in Vultee Aircraft, Inc., \$1.28 per share; in New York Shipbuilding Corporation, 33 cents per share; and in American Central Manufacturing Corporation, 21 cents per share.

Investments of the Corporation in its operating divisions — Lycoming, Republic Aircraft Products, Northern Aircraft Products, Spencer Heater and Liquid Cooled Engine Divisions — and its wholly owned subsidiary, American Propeller Corporation, and miscellaneous net current and other assets, as carried on the books, aggregate approximately \$13,000,000, or \$2.25 per share.

Since these manufacturing units are wholly owned, there are no securities outstanding in the hands of the public and therefore no market quotations. These investments are stated at values believed to be conservative.

RESEARCH

Research is being conducted by all manufacturing units of The Aviation Corporation for the improvement of products and new developments. This work by the Corporation and similar work by its associated companies have been important factors in perfecting manufacturing methods and processes for increased and improved war production and the saving of critical materials. The best and most advanced manufacturing techniques are imperative for the job of winning the war, and they will be of the greatest value to the nation and our industrial enterprise in post-war rehabilitation and progress.

Each of the manufacturing units of The Aviation Corporation carries on research work

in connection with its operations. During the past year a General Research Department was established under the direction of A. J. Snow.

Vultee Aircraft, Inc. has its Research Division at Detroit under the direction of Dr. Peter Altman. One of its outstanding developments during the year was a new product called "expanded metal" which when welded to thin steel sheets provides a substitute for aluminum in airframe construction.

Consolidated Aircraft Corporation in December announced the appointment of William B. Stout, designer of the first all-metal commercial plane, as head of Consolidated's research staff. The Stout Engineering Laboratories at Dearborn, Michigan, have become the Stout Research Division of Consolidated. Mr. Stout is well known for his success in the design and development of airplanes and other products.

COOPERATION IN WAR PRODUCTION

The aviation industry is demonstrating the value to the war effort of cooperation among manufacturers in speeding production. An outstanding development during 1942 was the organization of the Aircraft War Production Council, Inc., East Coast, the Board of Directors of which include Victor Emanuel, President of this Corporation, and the heads of seven other major aviation manufacturing companies. The Council serves as a clearing house for the exchange and pooling of engineering data, technical personnel and materials, and is cooperating with other similar organizations, the Aircraft War Production Council of the West Coast and the Automotive Council for War Production.

MAJOR CORPORATE DEVELOPMENTS

The most important corporate development of the 1942 fiscal year was the acquisition in December, 1941 of 34 per cent of the common stock of Consolidated Aircraft Corporation by Vultee Aircraft, Inc., a majority of whose common stock is owned by The Aviation Corporation. This transaction, which involved an increase in our investment in Vultee, was described in our 1941 annual report mailed to stockholders last March. Major developments subsequent to the issuance of that report are outlined below:

Vultee Consolidated Merger. Proposals for merger of Vultee Aircraft, Inc., and Consolidated Aircraft Corporation into a single industrial enterprise have been submitted to their stockholders for action at their respective meetings on March 17, 1943.

Upon completion of the proposed merger the name of the surviving company will be Con-

solidated Vultee Aircraft Corporation. Under the terms of the proposal, each share of Vultee common stock will be exchanged for 45/100 of a share of the new common stock and Consolidated's present common stock will be exchanged share for share for the new common stock. Vultee's outstanding \$1.25 cumulative convertible preferred stock will be exchanged share for share for \$1.25 cumulative convertible preferred stock of Consolidated Vultee, which will be convertible into $1\frac{1}{8}$ shares of new common stock.

The Aviation Corporation is vitally interested in the two companies by virtue of its 76 per cent ownership of the common stock of Vultee Aircraft, Inc., and the latter's 34 per cent ownership of the common stock of Consolidated Aircraft Corporation.

From the standpoint of The Aviation Corporation, its present stock holdings in Vultee will become a common stock interest of approximately 30 per cent in the new company, a fully integrated manufacturing enterprise having products which will cover the entire range of aircraft from the largest bombers, flying boats and transports to basic trainers and "flying jeeps". It will be one of the largest aircraft manufacturers in the world, having the advantage of coordinated plants and personnel for all-out production during the war and for producing all types of airplanes needed during the period after the war.

The present Vultee and Consolidated companies are already closely associated in management. Tom M. Girdler is Chairman of the Board and chief executive officer of each company and Harry Woodhead is President of each company.

Changes in Investments. During the fiscal year The Aviation Corporation by purchase of additional shares, increased its holdings of common stock of Vultee Aircraft, Inc., from 71 per cent of the outstanding common stock to approximately 76 per cent.

The Corporation also purchased additional shares of both the preferred and common stocks of American Central Manufacturing Corporation, increasing its holdings from slightly more than 50 per cent of each class of stock to 53 per cent of the preferred stock and to 55 per cent of the common stock.

As previously reported, the Corporation disposed of part of its trustee holdings of securities of American Airlines, Inc., reducing its equity from 34 per cent to 25 per cent.

American Central. On March 30, 1942, by action of the stockholders of Auburn Central Manufacturing Corporation, the name of that company was changed to American Central Manufacturing Corporation.

During the year American Central acquired the balance of the outstanding stock of the Sterilseat Corporation in exchange for 13,750 shares of its common stock plus an option on an additional 6,875 shares at \$5 per share.

Acquisition by Vultee. In July, 1942 Vultee Aircraft, Inc. acquired all of the outstanding stock of Intercontinent Aircraft Corporation, manufacturers of aircraft parts, at Miami, Florida.

Pension and Annuity Plans. As previously reported, The Aviation Corporation's Contributory Pension Plan and Extra Compensation Annuity Plan were approved by the stockholders at the annual meeting last March. Notwithstanding stockholders' approval, the Extra Compensation Annuity Plan, which provided for a distribution to officers and employees of a percentage of manufacturing earnings before taxes but after deduction of a return on invested capital, was suspended by the Directors for the present.

The decision to suspend this plan was taken despite the growing demands of expanded production for efficient executive and supervisory personnel. As employment has continued to increase, additional personnel could be obtained only in a highly competitive market, and salary adjustments have accordingly been made when necessary in order to retain our supervisory organization.

The Contributory Pension Plan, designed to supplement Government Social Security, has been retained but may be modified to qualify under the Revenue Act of 1942.

Executive Changes. Tom M. Girdler, for many years a Director of The Aviation Corporation, resigned that post during the year because of pressure of his duties as Chairman of Republic Steel Corporation and of our associated companies, Vultee Aircraft, Inc. and Consolidated Aircraft Corporation. Mr. Girdler, however, notwithstanding his resignation as a Director, has continued in a consulting capacity to assist the management of The Aviation Corporation. Colonel Arthur W. Herrington, Chairman of Marmon-Herrington Company, Inc., and then President of the Society of Automotive Engineers, was elected as a Director to fill the vacancy.

Two new Vice Presidents of The Aviation Corporation were elected during the year. Ira J. Snader, who became Vice President in charge of Manufacturing, is also Vice President of American Propeller Corporation and was formerly Division Manager of Republic Aircraft Products Division. Peter E. Garlent who became Vice President in charge of Williamsport Operations, was formerly Division Manager of the Lycoming Division. Rudolph H. Deetjen was appointed Assistant to the President of The Aviation Corporation.

WARTIME UNCERTAINTIES

Uncertainties surround the productive effort on the home front, as they do the fortunes of war on the battle front. The Aviation Corporation and associated companies, like others

wholly engaged in producing war materials, are subject to the wartime uncertainties of taxation, to the renegotiation of the contract prices of their products, to price ceilings on materials needed to make the products, as well as to manpower requirements and wage stabilization affecting industrial employees.

Today, at war, we have practically only one customer for our products—the United States Government, which is to say the people of this country. At such a time there can be no complaint about the uncertainties surrounding the all-out effort, except where they create confusion, waste and difficulties that hinder war production.

Because we are interested in the future welfare of the entire country, we are vitally interested in post-war recovery and in the preservation of the free enterprise system. It is the responsibility of management to prepare, to the best of its ability, for the eventual transition from wartime to peacetime. Therefore, we are concerned with the present uncertainties affecting business to the extent that they may make the transition difficult or even impossible.

Closely linked with wartime uncertainties is the ability of our companies to build up adequate reserves for the future. Ample reserves are imperative because of present plant expansion and tremendous production of airplanes, engines, propellers and aircraft parts, coupled with uncertainty as to the future demand for aircraft products and the cost of converting to peacetime production with its attendant problems of developing new products. Clearly, the companies' ability to meet post-war conditions demands that management exercise every effort to build up adequate reserves. But management alone cannot do this job. It needs the help and cooperation of the Government in achieving this objective.

The task of building up adequate reserves at this time is made difficult by the large proportion of earnings required for taxes. High taxes are a wartime necessity and every one willingly subscribes to the principle that unreasonable profits should not be permitted in the war effort. By the same token, however, business enterprise should be permitted to retain sufficient earnings to provide for post-war readjustment. The Revenue Act of 1942 set up the machinery for the elimination of excess profits and at the same time took a first step toward minimizing the effect of business dislocations by providing for a post-war refund.

A further complicating factor is the continuing problem of renegotiation of contracts. This law enacted last April creates confusion and uncertainty affecting corporate earnings and reserves and to that extent hinders rather than expedites war production. It is therefore impossible to determine final net profits or to set aside needed reserves, until contract renegotiations have been completed. In view of these difficulties, the subject of renegotiation of contracts should again be considered by Congress to insure fair and equitable treatment for companies devoting all their energies to the war effort.

These uncertain factors obviously have influenced dividend policies. Dividend payments, which are the wages paid to stockholders for supplying facilities and tools for production, are necessarily dependent upon net earnings definitely determined under existing laws.

CONCLUSION

The production records attained by The Aviation Corporation and associated companies during 1942, and the promise they hold for the future, are achievements of personnel as well as of plant facilities. The cooperative productive effort of many thousands of men and women is acknowledged by the management with both pride and gratitude, and we also take pride in the fact that more than 17,000 men from our group of companies are serving with the armed forces.

The Aviation Corporation is concentrating on the vital job of doing its share toward winning of the war. Industrial America has pigeon-holed everything else. Yet all America and the United Nations are also vitally concerned in the next task — that of cementing a lasting peace in a world rehabilitated and revitalized.

America has the resources and the initiative for both great tasks. There was a difficult transition period for this country in the change-over to all-out war production, and the change-back will almost certainly be equally difficult. We do not know, nor can any one foretell, how serious these dislocations will be, but it seems apparent that the fullest protective measures should be taken to ease the period of transition through which American industry and all connected with it must pass.

In the post-war period the present greatly expanded facilities for the manufacture of airplanes will present a very serious problem in making adjustments based upon reduced demands that may be expected from military and commercial sources in a competitive market. On the other hand, it is expected that many more millions of people will have become air-minded, resulting in a substantial increase in the air transportation business.

By order of the Board of Directors.

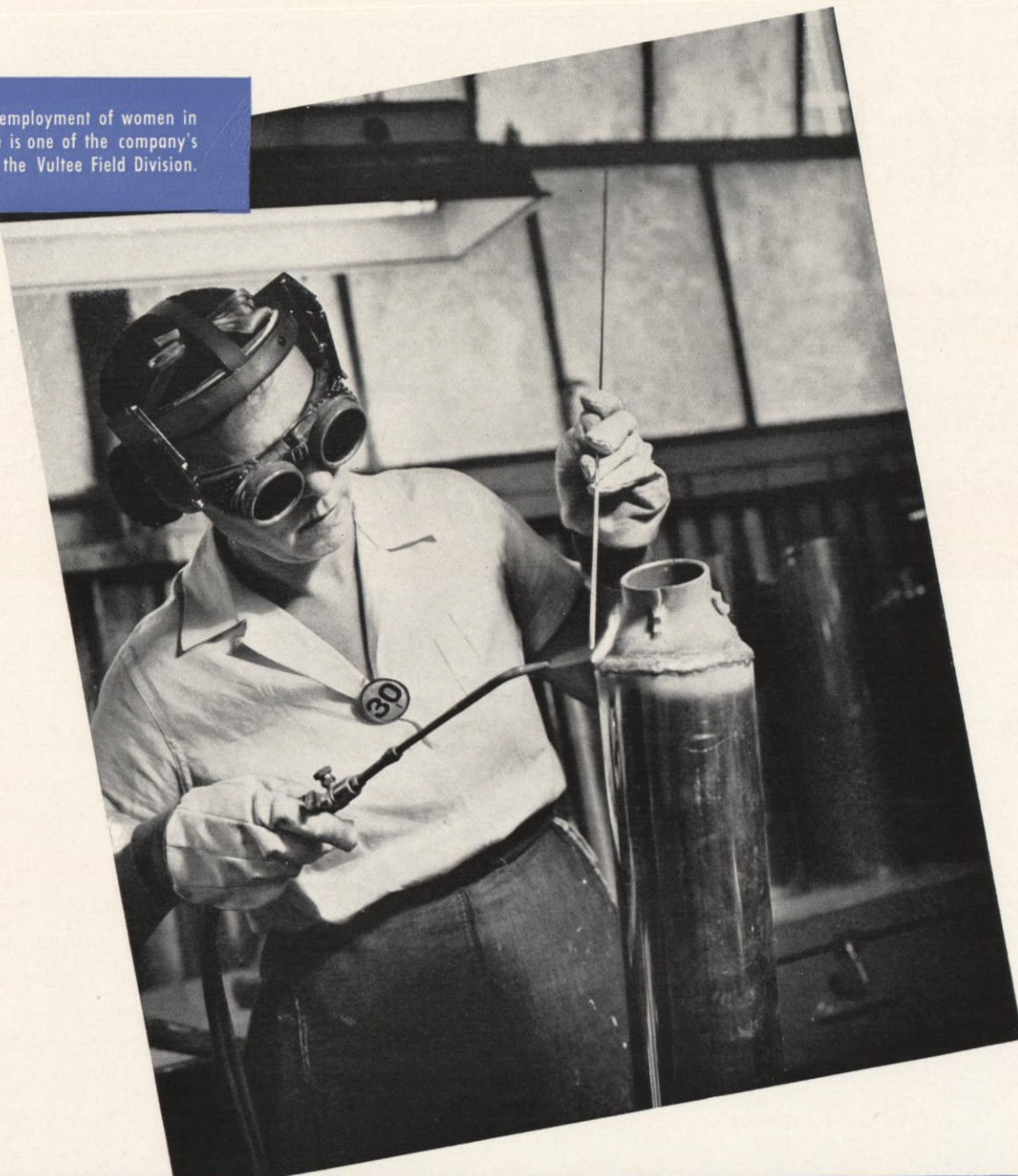
VICTOR EMANUEL,
President.

March 1, 1943

(Copies of the separately printed annual reports of Vultee Aircraft, Inc., Consolidated Aircraft Corporation, New York Shipbuilding Corporation and American Central Manufacturing Corporation may be had upon request to The Aviation Corporation, 420 Lexington Avenue, New York.)

Vultee pioneered in the employment of women in aircraft production. Here is one of the company's experienced welders at the Vultee Field Division.

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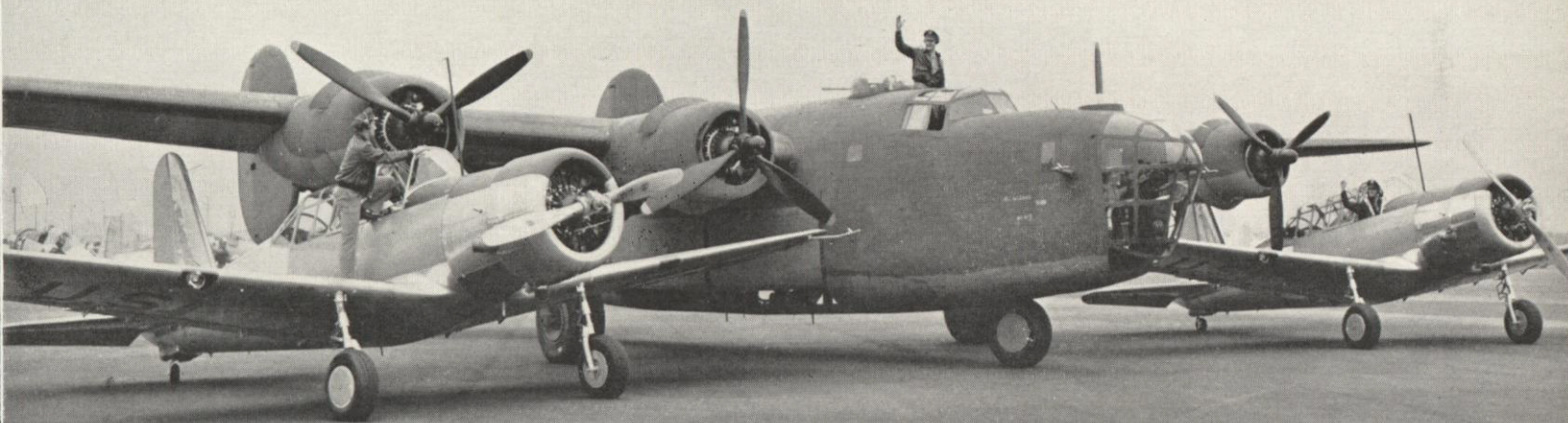


Looking down the final assembly line at Vultee's Nashville plant.



The New Sentinel is built by Vultee's Stinson Division. Known as the "flying jeep," it climbs almost vertically after a short take-off run.





Pilots trained in Vultee Valiants, like these two flanking a giant Consolidated Liberator bomber, eventually fly bombers and fighting planes on the battlefronts.

VULTEE AIRCRAFT, INC.

Production of airplanes by Vultee Aircraft, Inc. was centered prior to 1942 in the company's main plant at Vultee Field, near Los Angeles, California, and at the Nashville Division in Tennessee and the Stinson Division in Wayne, Michigan.

Vultee was a pioneer in establishing mechanized assembly lines for aircraft mass production, since widely adopted in the industry. The company's products cover a wide range comprising dive bombers, trainers and observation and pursuit planes, and it is also manufacturing parts for the Consolidated Liberator bomber.

During the past year Vultee acquired as a wholly owned subsidiary the Intercontinent Aircraft Corporation, with an aircraft parts plant at Miami, Florida. Later in the year Vultee established a modification center at Louisville, Kentucky, where war planes are adapted in equipment and appearance to suit the particular climatic area in which they are intended to operate.

Near the end of the year announcement was made by Vultee and the War Production Board

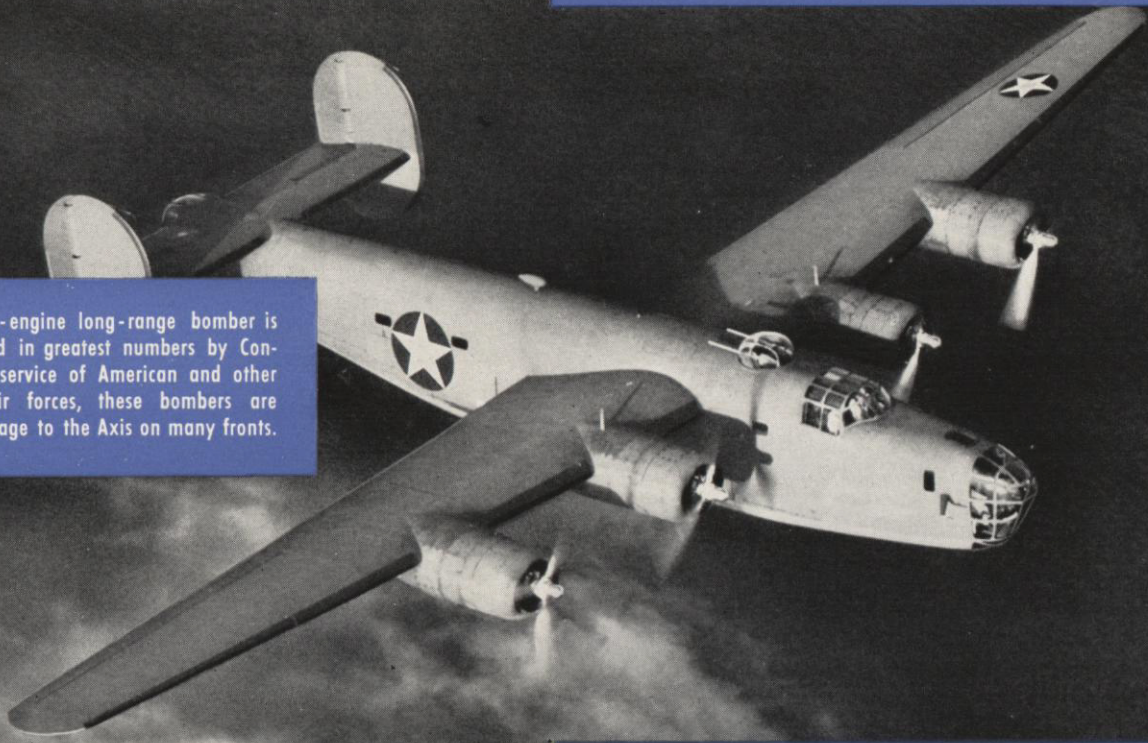
that Vultee is undertaking the conversion of an existing plant in Allentown, Pennsylvania, for the manufacture of torpedo bombers for the United States Navy under contracts calling for well over \$100,000,000 of planes. The cost of new facilities, including an airport, hangar and office building, will be approximately \$11,000,000.

Vultee's present products include the Vengeance dive bomber for the United States Army and the British Army; the Valiant trainer plane used by the Army, Navy and Marine Corps for basic training of pilots; the Stinson Sentinel "Flying Jeep", a new plane christened in November, powered by a Lycoming engine, and designed particularly for maneuverable liaison work; and the Stinson Reliant navigational trainer, also powered by a Lycoming engine, used for training flyers of the British Navy.

The Vultee Field Division on September 5, 1942 received the Army-Navy "E" Award for excellence of production and was one of the first airframe manufacturers in California to be so honored.



Four-engine Coronado flying boats are in service for the United States Navy and the British Coastal Command as a long-range patrol bomber.



The Liberator four-engine long-range bomber is the plane produced in greatest numbers by Consolidated. In the service of American and other United Nations' air forces, these bombers are causing heavy damage to the Axis on many fronts.

A view of part of the assembly line in Consolidated's huge new plant at Fort Worth, which produced its first Liberator bomber 100 days ahead of schedule.





Men and women work together in many operations in Consolidated's plants. These two are placing insulation in the side panel of a Liberator bomber.



This giant plane, transport version of the Liberator bomber, is one of many Liberator Expresses carrying war cargo overseas.

CONSOLIDATED AIRCRAFT CORPORATION

War communiques repeatedly recount the exploits of airplanes built for the United States Navy and Army by Consolidated Aircraft Corporation. This company is one of the largest manufacturers of airplanes in the United States, with two main plants at San Diego, California.

Last March, Consolidated started operation of a Government-owned plant at Fort Worth, Texas. Upon completion of additions to its facilities, this will be the world's largest aircraft factory. During the year the company also opened modification centers, for final conditioning of combat planes, at Tucson, Arizona, and Elizabeth City, North Carolina.

Early in 1943, announcement was made that Consolidated was to conduct a large operation at New Orleans, Louisiana, for the production of the new P4Y flying boat for the United States Navy.

Consolidated builds the Liberator (B-24) four-engine long range bomber, famous for its work in war combat for the United States Army Air Corps and the British Royal Flying Corps. Another Consolidated product is the Liberator Express (C-87), transport plane conversion of the bomber.

These planes hold records for many flights over the Atlantic and Pacific Ocean, including the flight that brought Lieutenant General H. H. Arnold, Army Air Corps Commander, from Australia to San Francisco in 35 hours, 53 minutes. Liberator planes also gained fame for carrying British Prime Minister Churchill, Wendell Willkie and other statesmen on world missions.

Consolidated also builds the two-engine Catalina, produced both as an amphibian and a flying boat, used by the United States and British Navies for patrol work; and the four-engine Coronado flying boat, built for the United States Navy and also used by the British Coastal Command.

Consolidated has, at the request of the United States Army Air Corps, supplied designs and engineering data for auxiliary construction of Liberator bombers by the Ford Motor Company and North American Aviation, Inc.

The Army-Navy "E" Award was presented to Consolidated at San Diego on November 21, 1942, in recognition of its outstanding production record.

NEW YORK SHIPBUILDING CORPORATION

The year 1942 was one of record-breaking production by the New York Shipbuilding Corporation, which has been building Naval vessels and merchant ships of the highest quality for forty-two years. As in 1941, its facilities were devoted exclusively to the construction of ships and ship parts for the United States Navy, and in August, 1942 the company received the Army-Navy "E" Award for excellence of production.

Its war products ranged last year from a battleship to landing barges. From its yards on the Delaware River at Camden, New Jersey, the company delivered to the Navy the battleship South Dakota and five cruisers, the Cleveland, Montpelier, Columbia, Denver and Santa Fe.

Three ships originally laid down as cruisers, but converted into aircraft carriers, were launched during the fifteen weeks between August 22 and December 6. These were the Independence, Princeton and Belleau Wood. Forty-two days later, on January 17, another ship of the same type, the Cowpens, was launched.

In addition, new facilities were added for fabrication of smaller types of war craft, of which 148 were completed and delivered during the year, including landing barges for troops and tanks.

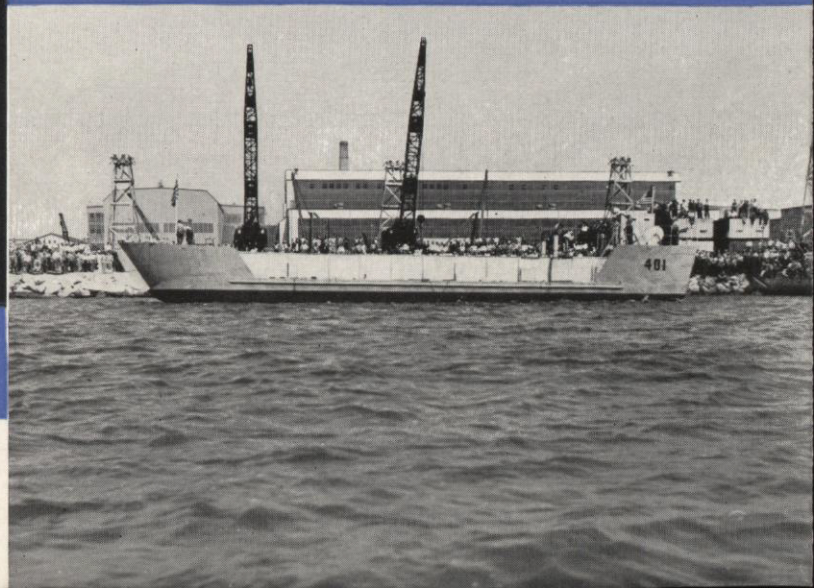


One of five cruisers delivered to the Navy last year was the U. S. S. Denver, shown sliding down the ways at the Camden yards.

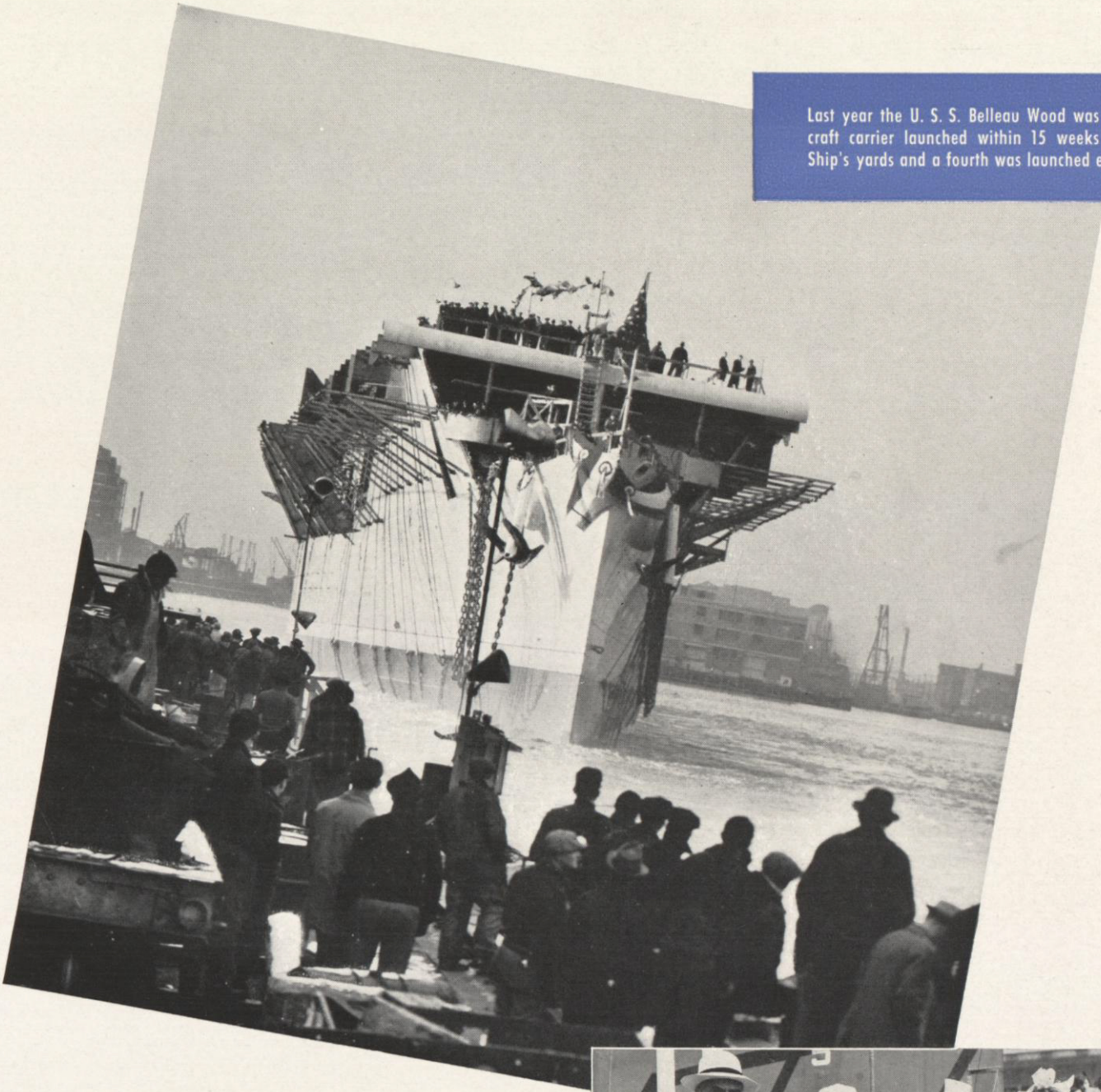


One type of landing barge numbered among the smaller was craft built by New York Shipbuilding Corporation.

A view through one of New York Ship's covered ways, showing another of the cruisers, the U. S. S. Montpelier, after launching in the Delaware River.



Last year the U. S. S. Belleau Wood was the third aircraft carrier launched within 15 weeks at New York Ship's yards and a fourth was launched early this year.



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Ship drawings are made in this huge air-conditioned room. New York Ship employs hundreds of draftsmen, including a number of women.



Distinguished visitors at the launching of the U. S. S. Independence, aircraft carrier, last August; left to right, Assistant Secretary of Navy Ralph Bard; Secretary of Navy Frank Knox; Mrs. Rawleigh Warner, sponsor; Mrs. Suzanne Warner, maid of honor; Admiral Ernest J. King, Commander-in-Chief of U. S. Fleet.



Lycoming's large machining operations plant recently completed in expansion program at the Lycoming Division.

LYCOMING

The plant capacity of the Lycoming Division, oldest among The Aviation Corporation's manufacturing units, was greatly increased last summer when a modern new plant was completed and placed in operation. The new building, which is Government financed, is adjacent to Lycoming's main plant at Williamsport, Pennsylvania.

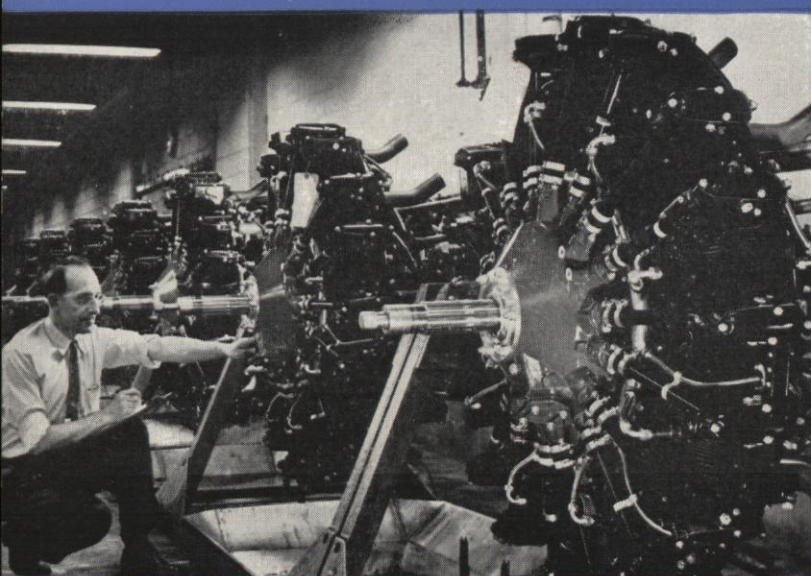
These new facilities, with additional machinery and equipment, practically doubled the Division's plant capacity. Lycoming broke all its previous production records during 1942. At the end of the year the rate of production was twice that of a year earlier, when the rate was an all-time high.

Lycoming manufactures radial and horizontally opposed engines for primary and advanced aircraft training planes and for liaison planes, and has converted one type of its aircraft units for use in light tanks and other mobile equipment of the United States Army's tank forces.

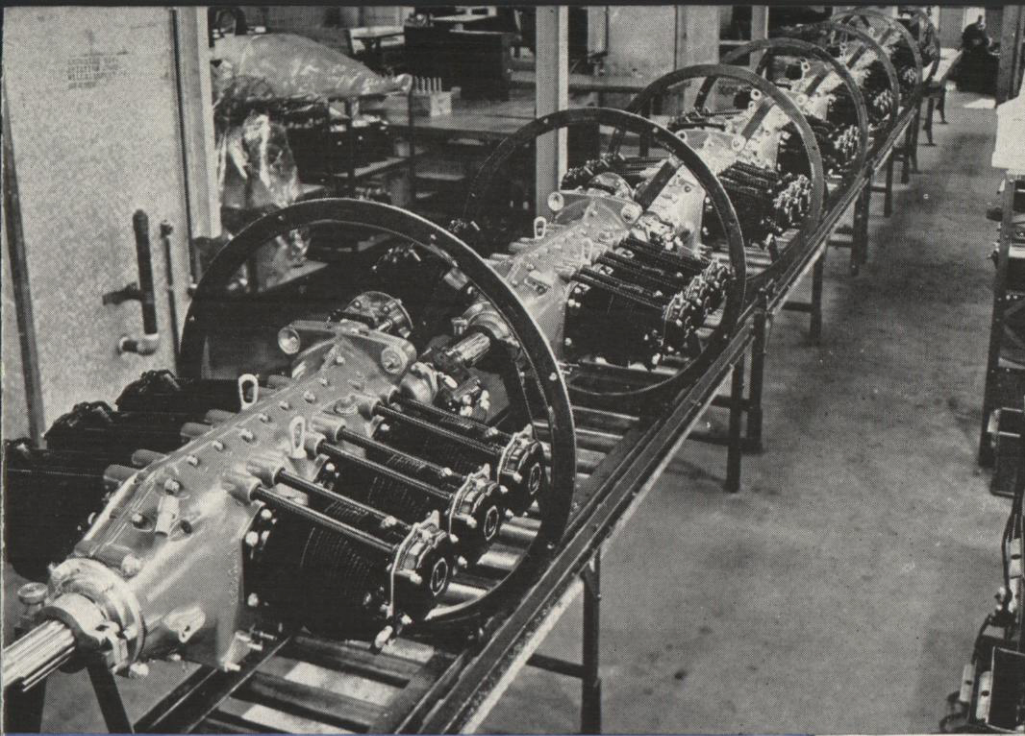
During the past year, 84 per cent of Lycoming's production consisted of 9-cylinder 300 horsepower radial engines used to power the new Reliant



This worker is adding to a great pile of partly completed crankcase housings destined for Lycoming engines.



Final inspection of the Lycoming 9 cylinder 300 horsepower radial engine before being sent to the test cells for actual "run in" time.



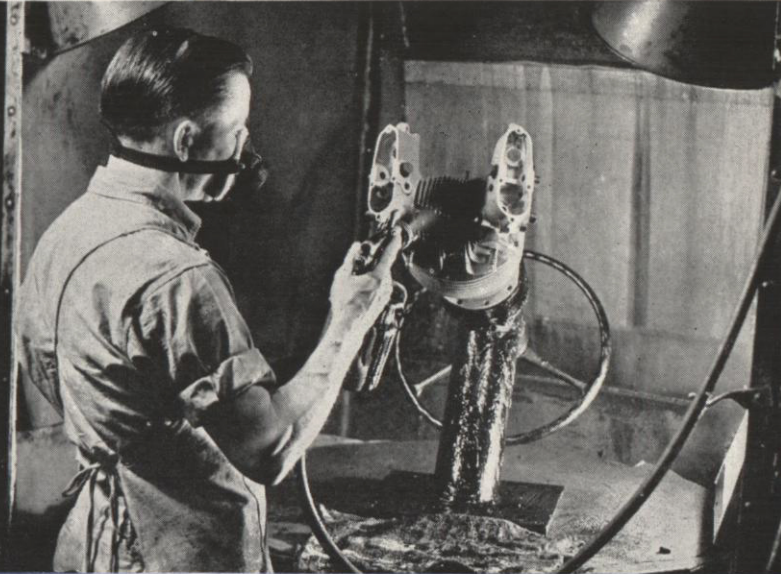
Production line showing the horizontally opposed Lycoming engine used in Vultee liaison planes and Stinson trainer planes.

DIVISION

navigation trainer, manufactured by the Stinson Division of Vultee Aircraft, Inc., liaison planes built by Vultee, and advanced trainers made by Beech, Cessna and Curtiss-Wright. Lycoming also has an outstanding production record for horizontally-opposed engines, of from 50 to 225 horsepower, which power the new Stinson Sentinel "flying jeep", the Piper ambulance ship for the Navy, and other multi-purpose light aircraft.

Total employment at Lycoming increased 50 per cent in 1942; one-third of the new employees are women, and the percentage of women workers is increasing steadily. The Division drew from the local Technical Institute, not only for workers in the regular vocational classes, but also for men handicapped by physical disabilities and whose work standards and performance rank equally with the other employees.

Last October, the Lycoming Division received the Army-Navy "E" Award for "high achievement in the production of war material."



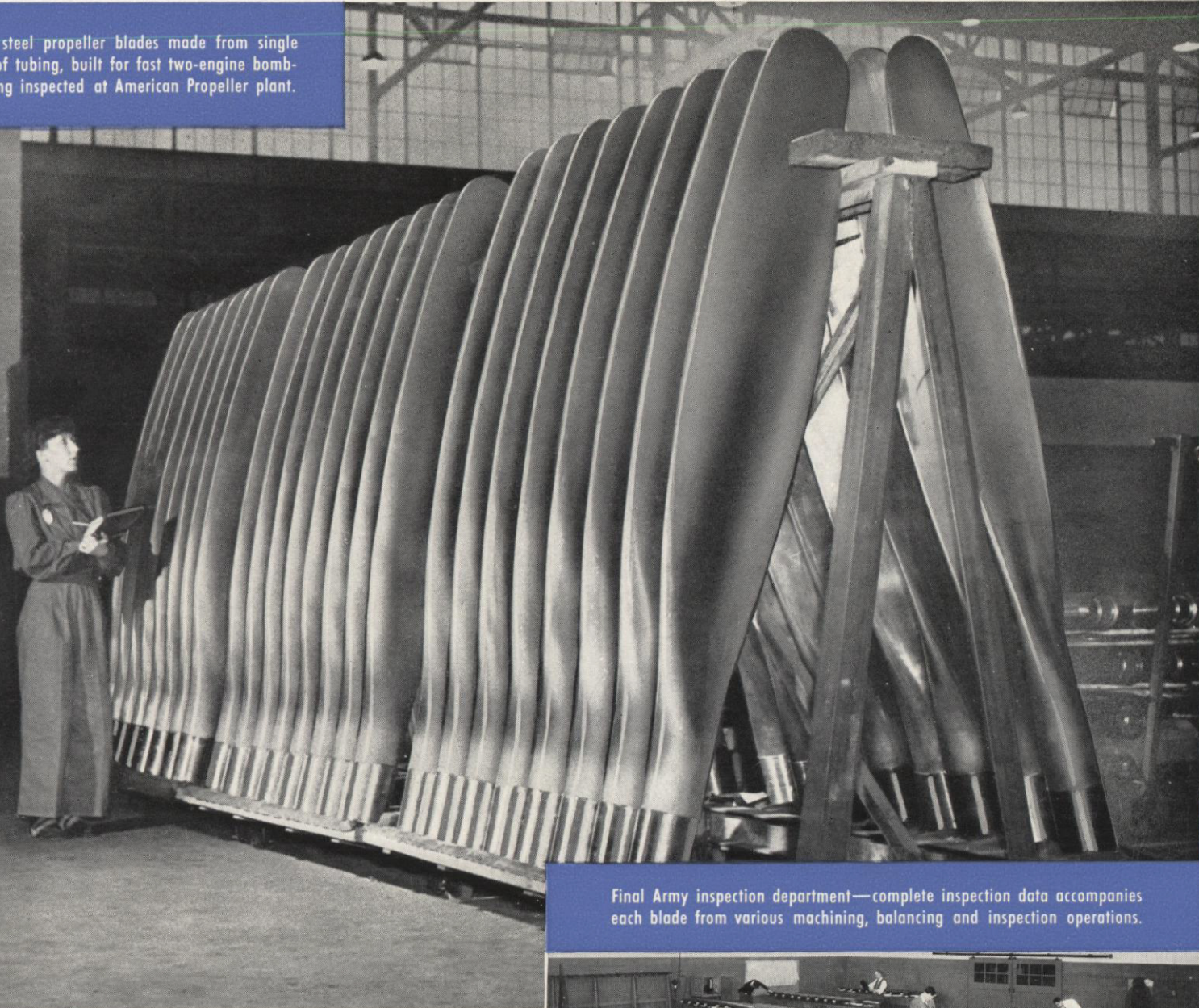
Shop ideas and employee suggestions play a vital role in speeding war production. Here is a suggestion utilizing the ordinary automobile steering wheel to turn Lycoming cylinder heads in the paint spray booth.



A former department store secretary at one of a battery of three machines which she operates in milling Lycoming engine link rods.

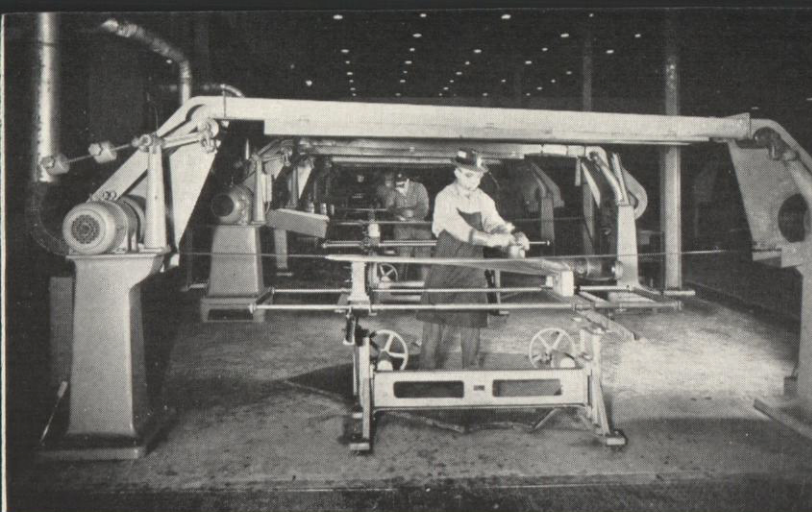
AMERICAN PROPELLER CORPORATION

Hollow steel propeller blades made from single pieces of tubing, built for fast two-engine bombers, being inspected at American Propeller plant.

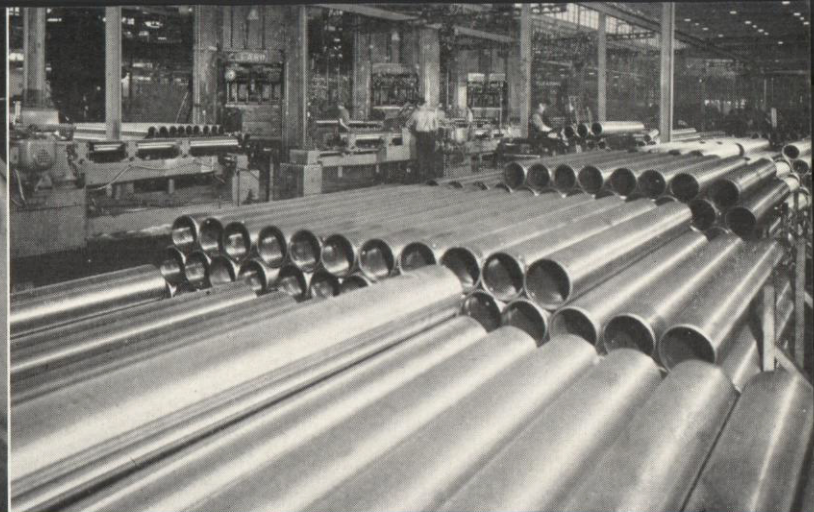


Final Army inspection department—complete inspection data accompanies each blade from various machining, balancing and inspection operations.





One of the first preliminary polishing operations which each blade undergoes to obtain the proper final balance.



Piles of tubes, intended for propeller blades, after they have been honed on the inside and ground on the outside to obtain uniform wall thickness.

American Propeller Corporation, a wholly owned subsidiary of The Aviation Corporation, last June produced its first hollow steel propeller blade for aircraft in a newly constructed plant at Toledo, Ohio.

American Propeller blades, which are used on bombers of the United States Army Air Forces, are made from a single piece of chromium-nickel-molybdenum seamless steel tubing. These blades have greater resistance to corrosion and in the larger sizes are lighter in weight than aluminum.

Pioneer work in developing this product originated at the Lycoming Division of The Aviation Corporation. American Propeller Corporation financed and built a pilot plant housing experimental engineering, laboratory and development work. The main manufacturing plant, which was

Government financed, was completed at the beginning of last summer.

Mass production of hollow steel blades was quickly under way. Plant output increased consistently every month, and at the year-end was running approximately two months ahead of contract schedule. Production for December was 40 per cent greater than for the month of November.

In January, 1943 announcement was made of the purchase of additional machinery and equipment which, without expanding the plant building, will increase production capacity by 50 per cent. With these additions to plant facilities, the American Propeller plant will be the largest manufacturer of hollow steel propeller blades in the United States.

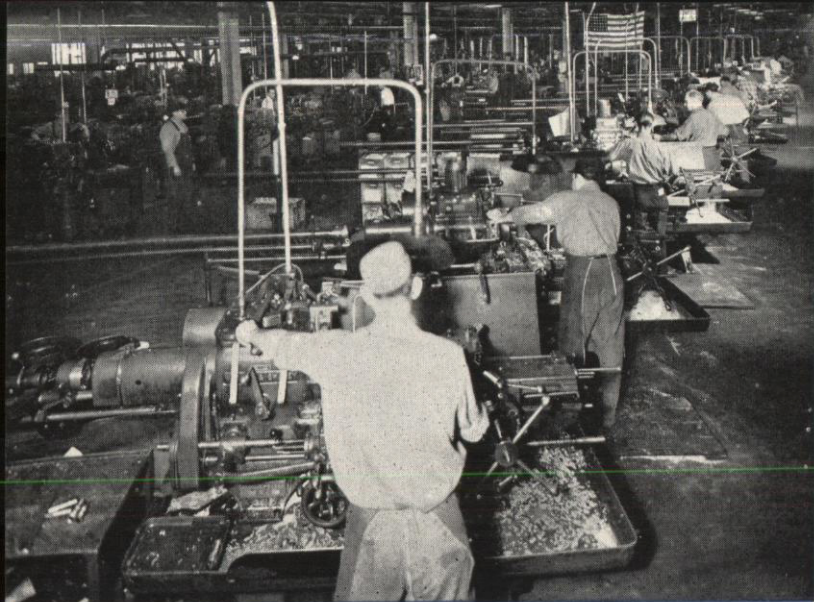
23

Lowering rack of blades into normalizing furnace (sunken). Blades are later finally formed in presses shown in extreme background.



One of the many inspection departments checking template fits and complete blade dimensions.

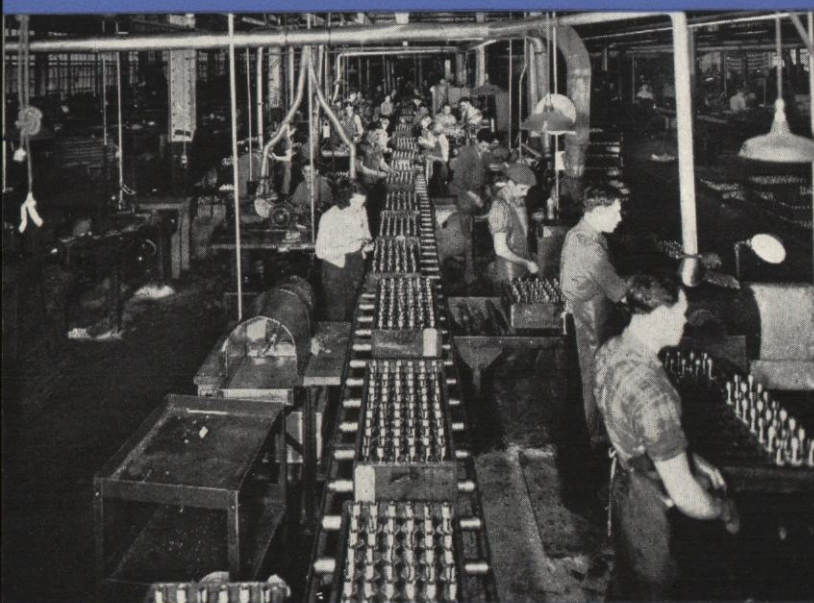




Battery of turret lathes at work on various aircraft parts.



Girls studying at Republic Aircraft Products Division training center. Here pre-employment training is given to men and women after they have passed several aptitude tests.



Part of the long conveyor line system operated by Republic Aircraft Products Division.

REPUBLIC AIRCRAFT PRODUCTS DIVISION

This Division of The Aviation Corporation produces hardened and ground precision parts for aircraft engines and propellers and has been operating for several years in two plants at Detroit, Michigan.

During the past year production by the Republic Aircraft Products Division was two and one-half times that of the preceding year. For November, the last month of the 1942 fiscal year, production had multiplied nearly three times.

There was no expansion in floor space of the plants but considerable new equipment was added. These additions, together with rearrangement of production lines and improved scheduling of operations, accounted for the increased production. Practically all of the new equipment was Government financed.

Increasing employment was a particularly serious problem for Republic because of the highly competitive conditions in its area of operations. As one means of solving the problem, Republic started an enlarged training plan for new employees, including the establishment of a new training center for pre-employment training of inspectors and machine tool operators.

Northern Aircraft Products Division. The organization of this new Division was announced last summer in order to supplement the production of precision parts by Republic, and also to make cutting tools for the Corporation's other manufacturing units. Operations will be in a converted plant at Toledo, Ohio, and production is expected to start early in 1943.



New plant of the Liquid Cooled Engine Division where powerful engines will be built for the United States Navy.

LIQUID COOLED ENGINE DIVISION

The organization of this new Division of The Aviation Corporation was announced last June. A new plant, located at Toledo, Ohio, is nearing completion for building a new liquid-cooled airplane engine which has a horsepower rating considerably greater than that of any other liquid-cooled engine now in production for aircraft.

The Liquid Cooled Engine Division's new plant, which is Government financed and sponsored by the United States Navy, is expected to be in operation early in 1943. Due to restrictions, the number of engines to be built and the rate of production called for under the contract, may not be revealed.

The new engine will be built for the United

States Navy and Army, and will mark the first use by the Navy of this type of aircraft engine. Exact specifications have not been disclosed, but it can be said that the new engine is so powerful that it compares favorably with the largest type air-cooled aircraft engines now in production.

Development work on the new design, which was started several years ago, was done for and with the cooperation of the Navy Department at the Lycoming Division of The Aviation Corporation.

Production of liquid-cooled engines with a power rating in the range of the largest air-cooled engines will mark an important milestone in aircraft history.

SPENCER HEATER DIVISION

Converted 100 per cent to the manufacture of war materials during the past year, the Spencer-Heater Division, one of the smaller divisions of The Aviation Corporation, substantially increased production at its Williamsport, Pennsylvania, plant.

With Government limitations severely curtailing the production and sale of its normal product, low-pressure heating boilers for various kinds of fuel, Spencer Heater's production of heating equipment was mainly for United States Army and Navy training stations and for housing in centers of war industries and critical defense areas.

Spencer Heater operates a heavy steel fabricating shop and gray iron, steel and aluminum foundries which are a source of castings used by the Lycoming Division in the manufacture of aircraft engines. During the past year low pressure boilers of large capacities were supplied by Spencer Heater for installation in various war production plants.

In addition to the production of heating boilers for war industries and Army and Navy projects, Spencer Heater's subcontracting in the steel fabricating shop included the production of bulkheads, struts, hatches, deckhouses, condensers and tanks for ship construction; also gun mounts, water heaters, and cradle yolks for anti-aircraft guns.

Spencer Heater's gray iron foundry produces in substantial volume pressure castings for valves, pumps and engines largely used on shipboard, industrial locomotive parts and machine tool castings for various purposes.



Fabricating bulkheads for ship construction is one phase of war production at the Spencer Heater plant.



A welding operation in Spencer Heater's steel fabricating shop; the 72 inch condenser is for use in producing 100 octane gasoline.



Scene in Spencer Heater's foundry; iron pouring from cupola spout to ladles for distribution to the moulding department.

AMERICAN CENTRAL MANUFACTURING CORPORATION

Every available square foot of plant area of the American Central Manufacturing Corporation at Connersville, Indiana, has been contracted to war production.

First war order, received on March 10, 1941, was for the fabrication of "jeep" bodies. To handle it required a considerable addition of welding, riveting and painting facilities. Several hundred new employees had to be trained and put to work on two eight-hour shifts.

Biggest expansion, however, and biggest conversion problem, came with the receipt of contracts for the production of aircraft wings and other aviation parts vital in air warfare. In addition to the installation of entirely new equipment, assembly jigs, riveting, welding and special handling equipment, this part of the program has required the training and employment of 1400 new workers, several hundred of them women.

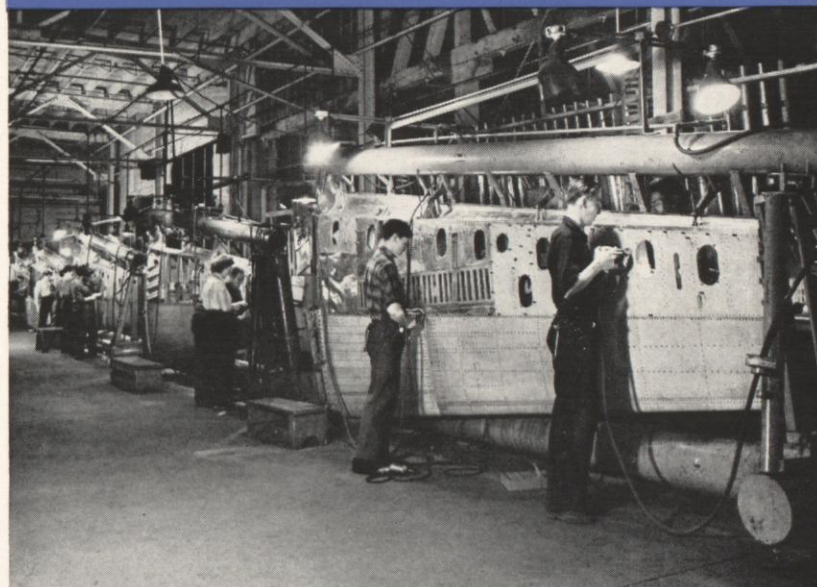
Today the work in progress in American Central's plant divides the building facilities into two areas of almost equal size. One wing of the plant, the first to get into production of war materials, is still concerned largely with the output of Army "jeep" bodies, trailer bodies and other parts for military vehicles. Added to this is fabrication of aviation parts with final assembly of exhaust manifolds, carburetor air ducts and oil coolers.

The other wing of the plant has been given over entirely to the partial fabrication and assembly of aircraft outer wings and fuselage sections. Plant rearrangement, tooling and installation of equipment to accommodate the additional contracts in this type of work is now in progress, the cost of which is being provided to a large extent by the prime contractors.

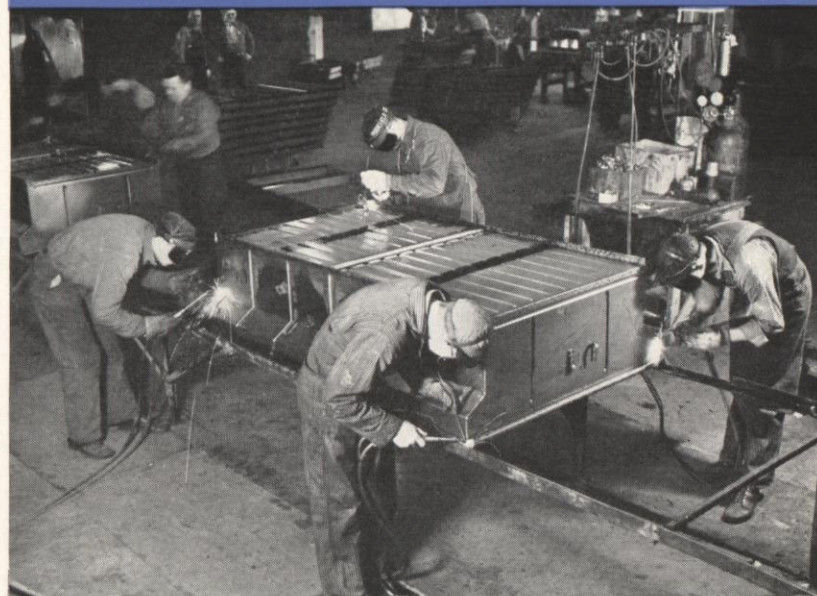
Women are being employed in both sections of the plant for welding, riveting and assembly work. Special training classes for both men and women offer preliminary training as well as help to the more adept in order that they may qualify for work requiring higher levels of skill. This training is sponsored and handled by company personnel.



Aircraft parts now being turned out by American Central, acting as a sub-contractor, include these carburetor air ducts for bombers.



These final assembly jigs for dive bomber wings occupy space in the American Central plant where in peacetime automotive sheet metal inspection before painting used to take place.



Four operators working together weld the corners of trailer bodies for Army vehicles at the American Central plant.

THE AVIATION CORPORATION AND CONSOLIDATED SUBSIDIARIES

Consolidated Balance

Assets

CURRENT ASSETS:

Cash on hand and demand deposits		\$ 4,983,947
Cash in special bank accounts (the use of which is restricted to certain U.S. Government contracts)		1,935,125
Accounts receivable —		
U.S. Government	\$3,124,421	
Other trade accounts	1,368,046	
Sundry	146,752	
	<u>\$4,639,219</u>	
Less: Reserve for doubtful items	44,082	4,595,137
Inventories — materials and parts, work in process, finished product and supplies (Note 2)	\$9,722,818	
Less: Customers' deposits constituting lien on inventory	<u>2,930,825</u>	<u>6,791,993</u>
Total current assets		<u>\$18,306,202</u>

NON-CURRENT NOTES AND ACCOUNTS RECEIVABLE, PARTLY SECURED (less reserve of \$8,117) (Note 3) 272,938

INVESTMENTS (see accompanying statement for details of investments and appreciation in market value thereof as compared with book value)..... 11,618,789

ACCOUNTS RECEIVABLE FROM U.S. GOVERNMENT (1942 to 1948) FOR EMERGENCY PLANT FACILITIES (of which \$1,634,319 is assigned as security to notes payable)..... 2,109,917

POST-WAR REFUND OF EXCESS PROFITS TAX 80,000

FIXED ASSETS:

Property, plant and equipment, at cost (Note 4) —		
Land	\$ 72,662	
Buildings and improvements	906,016	
Machinery and equipment	2,255,295	
Furniture, autos, etc.	169,352	
	<u>\$3,403,325</u>	
Less: Reserves for depreciation and amortization (Note 4).....	1,125,317	
	<u>\$2,278,008</u>	
Patterns, dies, jigs and special tools, at cost less amortization.....	750,164	
Construction work in progress	144,275	
	<u>\$3,172,447</u>	
Land (unimproved airport sites) at estimated realizable value.....	62,627	3,235,074
GOODWILL, AT COST LESS AMORTIZATION OF \$515,101		588,687
DEFERRED CHARGES:		
Prepaid taxes, insurance, etc.	\$ 139,929	
Deferred engineering and experimental expenses.....	<u>167,599</u>	<u>307,528</u>

\$36,519,135

THE AVIATION CORPORATION AND CONSOLIDATED SUBSIDIARIES

Sheet AT NOVEMBER 30, 1942

Liabilities, Capital Stock and Surplus

CURRENT LIABILITIES:

Accounts payable — trade			\$ 2,215,528
Dividend declared (paid December 21, 1942).....			867,333
Accrued liabilities —			
Salaries and wages		\$ 488,957	
Estimated Federal income and excess profits taxes.....	\$ 6,647,828		
Less: U.S. Treasury tax notes	<u>2,782,960</u>	3,864,868	
Other taxes		376,124	
Sundry		<u>100,689</u>	4,830,638
Customers' deposits			<u>2,718,857</u>
Total current liabilities			<u>\$10,632,356</u>

2½% INSTALLMENT NOTES PAYABLE TO BANKS (1942 to 1946) (secured by accounts receivable from U.S. Government for Emergency Plant Facilities)			1,634,319
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RESERVE FOR POST-WAR READJUSTMENT (Note 5)			600,000
--	--	--	---------

CAPITAL STOCK, PAR VALUE \$3 PER SHARE:

Authorized	7,500,000 shares		
Issued	5,793,513 shares	\$17,380,539	
Less: Held in treasury (Note 6)	11,291 shares	<u>33,873</u>	
Outstanding	<u>5,782,222 shares</u>		17,346,666

SURPLUS:

Capital surplus (paid-in) —No change during year.....		\$ 6,147,473	
Earned surplus since December 31, 1932 —			
Balance at November 30, 1941 — Deficit	\$ (3,120,017)		
Consolidated net income for the year ended			
November 30, 1942 (per accompanying statement)	\$4,723,894		
Less: Dividends declared			
(\$.25 per share in cash).....	<u>1,445,556</u>	<u>3,278,338</u>	
Balance at November 30 1942 (Note 1).....		<u>158,321</u>	6,305,794

CONTINGENT LIABILITIES —see Note 7

\$36,519,135

Reference is made to the accompanying notes.

THE AVIATION CORPORATION AND CONSOLIDATED SUBSIDIARIES

Consolidated Profit and Loss Statement

For the Year Ended November 30, 1942

NET SALES (Note 1).....		\$45,530,638
COST OF SALES		<u>34,174,826</u>
GROSS PROFIT FROM SALES.....		\$11,355,812
EXPENSES:		
Selling, advertising and service	\$ 359,528	
General and administrative	1,342,560	
Federal capital stock tax and State corporate taxes.....	<u>257,200</u>	<u>1,959,288</u>
		\$ 9,396,524
OTHER INCOME:		
Dividends received (in cash) —		
From subsidiaries not consolidated (Note 10).....	\$ 901,238	
On other security investments	<u>484,391</u>	
	\$1,385,629	
Interest earned, cash discount on purchases, etc.	<u>228,455</u>	<u>1,614,084</u>
		\$11,010,608
INCOME DEDUCTIONS:		
Provision for post-war readjustment (Note 5).....	\$ 600,000	
Amortization of goodwill	294,343	
Interest paid, cash discount on sales, etc.	<u>210,525</u>	<u>1,104,868</u>
CONSOLIDATED NET INCOME BEFORE EXTRAORDINARY PROFIT ON SALE OF SECURITIES AND PROVISION FOR FEDERAL INCOME AND EXCESS PROFITS TAXES.....		\$ 9,905,740
EXTRAORDINARY PROFIT ON SALE OF SECURITIES:		
50,000 shares of American Airlines, Inc. Trust Certificates.....	\$1,250,000	
Miscellaneous securities	<u>68,154</u>	<u>1,318,154</u>
		\$11,223,894
PROVISION FOR ESTIMATED FEDERAL INCOME AND EXCESS PROFITS TAXES:		
Normal income tax and surtax	\$1,900,000	
Excess profits tax (less post-war tax refund of \$80,000)	<u>4,600,000</u>	<u>6,500,000</u>
CONSOLIDATED NET INCOME FOR THE YEAR ENDED NOVEMBER 30, 1942 (Note 1).....		<u>\$ 4,723,894</u>

Reference is made to the accompanying notes.

THE AVIATION CORPORATION AND CONSOLIDATED SUBSIDIARIES

Statement of Investments

At November 30, 1942

	Number of shares	Per cent of total issue	Amount at which carried in balance sheet (at or below cost)	Value based on market quotations at Nov. 30, 1942 ***
SECURITIES OF SUBSIDIARIES NOT CONSOLIDATED (Note 10):				
Vultee Aircraft, Inc. — common stock, par value \$1 per share	912,038	75.77*	\$ 5,299,014	\$ 6,840,285
New York Shipbuilding Corporation — founders stock, par value \$1 per share	102,800	58.74**	2,452,406	1,542,000
American Central Manufacturing Corporation —				
Convertible preferred stock, par value \$50 per share...	5,295	53.32	114,409	227,685
Common stock, par value \$1 per share	153,625	54.53	547,816	864,140
			<u>\$ 8,413,645</u>	<u>\$ 9,474,110</u>
OTHER SECURITY INVESTMENTS:				
American Airlines, Inc. — common stock, par value \$10 per share (Note 8)	143,769	25.01	\$ 1,797,113	\$ 6,793,085
Pan American Airways Corporation — common stock, par value \$5 per share	183,477	9.47	1,360,131	4,426,383
Roosevelt Field Inc. — common stock, par value \$5 per share	60,000	19.96	30,000	150,000
Miscellaneous			17,900	10,775
			<u>\$ 3,205,144</u>	<u>\$11,380,243</u>
			<u>\$11,618,789</u>	<u>\$20,854,353</u>

* The corporation owns 75.77% of the common stock of this company but only 63.83% of the total of common stock and preferred stock, both classes of stock having voting rights. The preferred stock is convertible into common stock and if such conversion had occurred as at November 30, 1942 the corporation's ownership of this company would have been reduced to 51.63%. The directors of Vultee Aircraft, Inc. and Consolidated Aircraft Corporation have submitted to the stockholders of these corporations a proposal for merger under which 45 shares of common stock of the merged corporation would be given for each 100 shares of common stock of Vultee Aircraft, Inc. If this merger is approved, the ownership of the corporation in the merged company (Consolidated Vultee Aircraft Corporation) would be between 25% and 30%, varying with the extent to which conversion of the preferred stock occurs.

**The corporation owns 58.74% of the founders stock (voting) of this company but only 20.56% of the total of founders stock and participating stock. On the basis of the number of shares of each class now outstanding, the participating and founders stock have equal rights on a share for share basis in respect of dividends and assets although the participating stock has no voting rights.

*** Unrealized appreciation on investments based on market quotations (which are not necessarily the amounts realizable on immediate sale) amounted to \$9,235,564 at November 30, 1942 as compared with \$14,610,109 at November 30, 1941, these amounts being before provision for Federal income taxes which would be payable if the investments were sold. Substantial increases in the market quotations for these investments have occurred since November 30, 1942.

Reference is made to the accompanying notes.

THE AVIATION CORPORATION AND CONSOLIDATED SUBSIDIARIES

Notes to Financial Statements

Note 1: Under the Sixth Supplemental National Defense Appropriation Act of 1942 as amended by the Revenue Act of 1942 the corporation's contracts for the U.S. Government are subject to renegotiation and it is anticipated that renegotiation proceedings will, in the near future, be commenced by the Price Adjustment Board for the purpose of determining whether, in its opinion, "excessive profits" have occurred. Although the amount may be material it is impossible to determine at this time the outcome of such proceedings and no reserve has been provided in the accounts for reduction in profit (which will be after deduction of Federal income and excess profits taxes applicable to any reduction of the gross proceeds of the contracts) which may result therefrom.

Note 2: Inventories are stated at cost (determined by the average method) which is not in excess of replacement or realizable value.

Note 3: Non-current notes and accounts receivable include a \$250,000 note receivable from an officer of a subsidiary not consolidated.

Note 4: The property, plant and equipment shown above includes \$1,942,030 of emergency facilities, acquired for use in performing war production contracts, amortization of which is being provided at the rate of 20% per year. The accumulated reserve for amortization of such facilities amounts to \$477,313 at November 30, 1942.

Note 5: The reserve for post-war readjustment was created by the management as a provision against possible

cost of transition from wartime to peacetime operations.

Note 6: An officer of the corporation holds an option (expiring April 22, 1943) to purchase at \$3 per share the 11,291 shares of treasury stock.

Note 7: In the opinion of counsel, there are no contingent liabilities of material amount, except those covered by insurance, provided for in the accounts or mentioned specifically in other notes to the accounts.

Note 8: The corporation's investment in common stock of American Airlines, Inc. has, with the approval of the Civil Aeronautics Board, been deposited with a trustee under a trust agreement which does not permit such stock to be voted but which imposes no restrictions on the receipt of dividends or the corporation's right to sell such stock. Upon termination of the trust agreement on July 9, 1944 or six months after the expiration of the present national emergency, whichever is earlier, it shall be open to the Civil Aeronautics Board to review the future retention of the aforesaid American Airlines, Inc. stock by The Aviation Corporation, either through a trust agreement or otherwise, in accordance with any power or authority regarding the same which the Board may have.

Note 9: Provision was made during the year ended November 30, 1942 for amortization of emergency plant facilities in the amount of \$348,181 and for depreciation and amortization of other fixed assets in the amount of \$626,061.

Note 10: The following information is submitted in regard to the corporation's equity in subsidiaries not consolidated:

	<i>Equity in earnings for current fiscal year</i>	<i>Dividends received during current fiscal year</i>	<i>Equity in undistributed earnings since date of acquisition</i>	<i>Equity in net assets at end of current fiscal year</i>
Vultee Aircraft, Inc. (fiscal year ends November 30th)	\$3,237,010*	\$456,019	\$5,201,956*	\$11,221,862*
New York Shipbuilding Corporation (fiscal year ends December 31st)	625,561*	308,400	640,885*	2,016,436*
American Central Manufacturing Corporation (fiscal year ends November 30th)	<u>247,017*</u> <u>\$4,109,588</u>	<u>136,819</u> <u>\$901,238</u>	<u>167,315*</u> <u>\$6,010,156</u>	<u>1,123,685*</u> <u>\$14,361,983</u>

* Subject to adjustment arising from renegotiation of contracts, the effect of which cannot be determined at this time.

Financial statements of Vultee Aircraft, Inc. for the year ended November 30, 1942, are attached hereto.

CABLE ADDRESS "ARTHYOUNG"

NEW YORK
CHICAGO
PITTSBURGH
KANSAS CITY
MILWAUKEE
LOS ANGELES
DALLAS
TULSA
LONDON, ENGLAND

ARTHUR YOUNG & COMPANY
ACCOUNTANTS AND AUDITORS
1 CEDAR STREET
NEW YORK

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS,
THE AVIATION CORPORATION:

We have examined the consolidated balance sheet of THE AVIATION CORPORATION AND CONSOLIDATED SUBSIDIARIES at November 30, 1942 and the consolidated profit and loss statement for the fiscal year then ended, have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Except that it was not practicable to confirm receivables from United States Government departments, as to which we have satisfied ourselves by means of other auditing procedures, our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, subject to adjustment arising from renegotiation as explained in Note 1 to the financial statements, the accompanying consolidated balance sheet and profit and loss statement, together with the accompanying notes, present fairly the consolidated position of The Aviation Corporation and Consolidated Subsidiaries at November 30, 1942 and the results of their consolidated operations for the fiscal year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR YOUNG & COMPANY

New York, N. Y.
February 15, 1943.

VULTEE AIRCRAFT, INC. AND SUBSIDIARY

Consolidated Balance

Assets

CURRENT ASSETS:

Cash		\$19,554,394.58
United States Treasury Certificates		250,000.00
Cash and United States Treasury Certificates deposited as collateral to long-term notes payable		1,009,000.00
Accounts receivable	\$8,713,124.01	
<i>Less: Reserve for doubtful accounts</i>	<u>7,633.08</u>	8,705,490.93
Inventories—materials, work in progress and supplies (Note 1).....		39,709,547.16
Advance payment on inventory purchase commitments.....		<u>126,423.16</u>
Total current assets		\$69,354,855.83

INVESTMENT IN CAPITAL STOCK OF CONSOLIDATED AIRCRAFT CORPORATION

(at cost) (Note 2)	10,128,496.70
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ACCOUNT RECEIVABLE FROM UNITED STATES GOVERNMENT (1942-1947) FOR EMERGENCY PLANT FACILITIES (Construction in progress) (assigned as security to note payable)

4,202,714.81

FIXED ASSETS (at cost) (Note 10):

Land	\$	99,999.57	
Buildings and improvements	\$5,755,792.46		
Machinery and equipment	3,151,336.79		
Furniture, autos, etc.	<u>1,055,880.22</u>		
	\$9,963,009.47		
<i>Less: Reserves for depreciation and amortization...</i>	<u>2,814,889.03</u>	<u>7,148,120.44</u>	7,248,120.01

POST-WAR REFUND OF EXCESS PROFITS TAX.....	261,900.00
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DEFERRED CHARGES (Prepaid taxes, insurance, etc.).....	593,964.71
--	------------

\$91,790,052.06

See accompanying notes.

VULTEE AIRCRAFT, INC. AND SUBSIDIARY

Sheet NOVEMBER 30, 1942

Liabilities, Capital Stock and Surplus

CURRENT LIABILITIES:

Notes payable — banks (Note 4).....	\$ 7,908,138.10
Notes payable — other	458,333.34
Accounts and wages payable.....	7,318,806.25
Liability for voluntary refunds to United States Government (Note 3).....	10,500,000.00
Progress and advance payments received from customers, less cash in restricted bank accounts of \$1,636,062.54	16,300,457.64
Provision for Federal income and excess profits tax (estimated) (Note 7)	22,761,946.77
Accrued taxes (other than Federal income taxes).....	801,937.68
Total current liabilities	<u>\$66,049,619.78</u>

LONG-TERM NOTE PAYABLE — BANK:

2½% installment (1942-1947) (secured by deposits and account receivable from United States Government for emergency plant facilities).....	4,200,000.00
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RESERVE FOR POST-WAR READJUSTMENT (Note 13).....	1,700,000.00
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CAPITAL STOCK:

Preferred stock — \$1.25 cumulative convertible — no par value (Note 5) —

	Number of Shares		
Authorized	260,000		
Issued	<u>240,000</u>	\$5,360,577.20	
Less:			
Retired and/or converted.....	12,635	\$ 282,202.73	
Purchased for retirement, held in treasury...	<u>2,200</u>	<u>49,137.00</u>	
	14,835	\$ 331,339.73	
Outstanding	<u>225,165</u>	\$5,029,237.47	
Common stock, par value \$1.00 per share (Note 8) —			
Authorized	2,200,000		
Issued and outstanding	1,203,755½	<u>1,203,755.50</u>	6,232,992.97
(Reserved for conversion of preferred stock—562,912 shares)			

SURPLUS (Per accompanying statement):

Paid-in surplus	\$6,525,609.53
Earned surplus — segregated as provision for sinking fund requirements of preferred stock	500,000.00
Earned surplus (Notes 3 and 6)	<u>6,581,829.78</u>
	13,607,439.31

CONTINGENT LIABILITIES (Note 9)

\$91,790,052.06

VULTEE AIRCRAFT, INC. AND SUBSIDIARY

Statement of Consolidated Income

For the Year Ended November 30, 1942

NET SALES (After provision for voluntary refunds to the Government) (Note 3)		\$109,772,849.62
COSTS AND EXPENSES APPLICABLE TO PRODUCTS SOLD (Notes 1 and 11)		<u>81,835,832.07</u>
PROFIT FROM OPERATIONS		\$ 27,937,017.55
OTHER INCOME:		
Interest earned	\$ 56,407.96	
Purchase discounts	238,607.08	
Dividends received from investment in capital stock of Consolidated Aircraft Corporation	440,000.00	
Profit on disposal of fixed assets	21,555.31	
Miscellaneous	<u>37,074.32</u>	<u>793,644.67</u>
		\$ 28,730,662.22
INCOME DEDUCTIONS:		
Interest paid	\$ 371,585.14	
Excess of cost of capital stock of subsidiary purchased during year over book value of net assets	319,561.20	
Cost of past service retirement income for employees	221,842.24	
Miscellaneous	8,534.05	
Federal taxes on income (estimated) —		
Normal and surtax	\$ 2,599,000.00	
Excess profits tax (less post-war tax refund of \$261,900.00)	<u>18,957,100.00</u>	<u>21,556,100.00</u>
Provision for post-war readjustment (Note 13)	<u>1,700,000.00</u>	<u>24,177,622.63</u>
NET INCOME (Including post-war tax refund of \$261,900.00) (Note 3)		<u>\$ 4,553,039.59</u>

See accompanying notes.

VULTEE AIRCRAFT, INC. AND SUBSIDIARY

Statement of Consolidated Surplus

For the Year Ended November 30, 1942

PAID-IN SURPLUS:

Balance, December 1, 1941		\$5,164,996.90
<i>Add:</i>		
Excess of cash proceeds from sale of common stock over par value of \$1.00 per share		1,350,000.00
Excess of issue price of preferred stock converted over par value of common stock	\$ 12,595.23	
<i>Less:</i> Excess of cost of preferred stock purchased for retirement over issue price	<u>1,982.60</u>	<u>10,612.63</u>
Balance, November 30, 1942		<u><u>\$6,525,609.53</u></u>

EARNED SURPLUS:

Balance, December 1, 1941		\$3,411,334.30
Net income for the year ended November 30, 1942 (Note 3)		<u>4,553,039.59</u>
		\$7,964,373.89
<i>Deduct:</i>		
Dividends paid —		
Preferred stock at rate of \$1.25 per share per year	\$280,666.61	
Common stock — 50¢ per share	<u>601,877.50</u>	<u>882,544.11</u>
		\$7,081,829.78
<i>Less:</i> Amount segregated as provision for sinking fund requirements of preferred stock ...		<u>500,000.00</u>
Balance, November 30, 1942 (Notes 3 and 6)		<u><u>\$6,581,829.78</u></u>
See accompanying notes.		

Notes to Financial Statements

Note 1: It is the policy of the company to use for each plane produced and delivered under a production contract an estimated predetermined average cost, which estimate is revised when production under the contract has progressed sufficiently to permit a more accurate determination of the probable cost of the entire contract. This results in the excess cost of the first planes produced being included in inventory, to be spread as part of the cost of the remaining planes on the same model contracted for as long as the aggregate cost so established does not exceed realization price. Cost, in the case of materials and purchased parts, has been determined by the average method. No inter-company profits are included in the inventory.

Note 2: The investment in capital stock of Consolidated Aircraft Corporation is represented by 440,000 shares of the capital stock of that company, being 34.26% of the amount outstanding. The excess of the purchase price of these shares over the net book equity thereof amounted, at date of acquisition, to \$6,898,312.00, and at November 30, 1942 to \$3,663,656.00. It is the intention of the directors that the excess at date of acquisition will be reduced over a period of years by (1) specific provision in Vultee accounts (2) accumulation of undistributed earnings in Consolidated Aircraft accounts and (3) eventual application of the sinking fund to be reserved for the purchase and redemption of the new Vultee preferred stock.

Since the undistributed earnings in Consolidated Aircraft Corporation, as per its certified accounts, but subject to possible adjustment for renegotiation contracts, applicable to these shares for the year ended November 30, 1942, amounted to \$3,234,656.00, no provision was necessary for this year. The quoted market value of the shares held as at November 30, 1942 amounted to \$7,700,000.00.

Note 3: Under the Sixth Supplemental National Defense Appropriation Act of 1942, and under the Revenue Act of 1942, the company's contracts with the United States Government are subject to renegotiation. The company has made provision for a reduction in price of \$10,500,000.00, but the Government proposed a limitation of the net income to approximately \$3,200,000.00 before provision for post-war adjustments. The limitation would have required a reduction in gross price of approximately \$12,000,000.00 in excess of the provision made by the company, and was not acceptable to the company. As Federal income and excess profits taxes have already been provided on the income shown in the accounts, this additional proposed reduction would reduce net income by approximately \$3,000,000.00. No provision has been made in the accounts for any part of the possible reduction in net income.

Note 4: There has been pledged against a note payable to bank, in the amount of \$408,138.10, the entire capital stock of the Intercontinent Aircraft Corporation, a wholly owned subsidiary, whose accounts are consolidated in this balance sheet. The net assets of this company, included in said balance sheet, amount to \$537,820.00.

Note 5: Each share of preferred stock is convertible, at the holder's option, into $2\frac{1}{2}$ shares of common stock. The preferred stock is redeemable, at the company's option at \$27.50 per share plus accrued and unpaid dividends. It is entitled to the same amount in a voluntary dissolution. In an involuntary dissolution it is entitled to \$25.00 per share, plus unpaid and accumulated dividends thereon. The excess of this latter amount over the stated value is \$599,888.00 and, in the opinion of counsel, the earned surplus is not restricted thereby.

VULTEE AIRCRAFT, INC. AND SUBSIDIARY

Under the terms of the Certificate of Incorporation there is required to be set aside on or before February 15, 1943, and on or before the 15th day of February next succeeding each subsequent fiscal year, a sinking fund for the retirement of this stock of 20% of the net earnings in excess of dividends paid on said stock, but with the provision that the minimum in each year should be \$250,000.00 and the maximum \$500,000.00. The surplus has been segregated to show the amount set aside in accordance with these terms. This sinking fund may be reduced by the cost of shares purchased and retired during the twelve months preceding such date. The company, prior to November 30, 1942, purchased 14,200 shares at a cost of \$319,139.60 and prior to January 25, 1943 expended for purchase of shares the additional amount necessary to use the maximum provision for the year.

Note 6: Under the terms of an agreement covering the note payable to banks, no dividend can be paid except to the extent of fifty per cent of the earnings accrued after December 31, 1941, without the previous written consent of the banks.

Note 7: Federal income tax returns of Vultee Aircraft, Inc., since commencement of operations as of November 1, 1939 to November 30, 1941, are now under review by the Treasury Department. It is not anticipated that any material liability will be determined in excess of the provisions made by the company.

Note 8: On November 15, 1939, 37,500 shares of un-

issued capital stock were reserved for sale at \$10.00 per share, to officials and executives, and options on 13,250 of such shares had, at November 30, 1942, been allotted to certain officers and directors and were outstanding at that date. These options expired December 31, 1942, not having been exercised prior to that date.

Note 9: In the opinion of counsel, there are no contingent liabilities of material amount, except those covered by insurance, provided for in the accounts, or mentioned specifically in other notes to the accounts.

Note 10: The fixed assets shown above include \$7,693,785.00 of facilities covered by Certificates of Necessity, which are being amortized over a period of sixty months.

Note 11: There has been included in costs and expenses the amount of \$1,015,588.19, representing the excess of the cost to date on a contract for experimental models over the sales price to be received therefor, there being no actual production orders at this time, justifying the deferring of said excess cost.

Note 12: Amortization of emergency facilities covered by necessity certificates and depreciation of other fixed assets charged to costs and expenses during the year amounted to \$1,955,149.86 and \$245,572.45, respectively.

Note 13: This reserve was created by the management as a provision against possible cost of transition from wartime to peacetime operations.

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ARTHUR YOUNG & COMPANY
ACCOUNTANTS AND AUDITORS
629 SOUTH HILL STREET
LOS ANGELES

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS
OF VULTEE AIRCRAFT, INC.

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We have examined the consolidated balance sheet of Vultee Aircraft, Inc. and subsidiary, at November 30, 1942, and the statements of consolidated income and consolidated surplus for the year ended that date. In connection therewith, we reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary, except that it was impracticable to obtain independent confirmation of accounts due from the United States Government but we satisfied ourselves by other means as to their substantial accuracy.

In our opinion, subject to any adjustment arising from renegotiation as explained in Note 3 to the financial statements, the effect of which cannot be determined at this time, the accompanying consolidated balance sheet and related statements of consolidated income and surplus, together with the accompanying notes, present fairly the consolidated financial position of Vultee Aircraft, Inc. and its subsidiary at November 30, 1942, and the results of their consolidated operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR YOUNG & COMPANY

Los Angeles, California,
January 25, 1943.